

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Charlotte Community Library	County Eaton
Audit Date 6/30/05	Opinion Date 8/16/05	Date Accountant Report Submitted to State: 10/7/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.			
Street Address 3511 Coolidge Road, Suite 100		City East Lansing	State MI
		ZIP 48823	
Accountant Signature <i>Abraham & Gaffney, P.C.</i> <i>Kevin M. Jarvis</i>			Date 10/7/05

**Charlotte Community Library
Charlotte, Michigan**

FINANCIAL STATEMENTS

June 30, 2005

Charlotte Community Library

Charlotte, Michigan

June 30, 2005

BOARD OF TRUSTEES

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Mr. Keith Tirrell	Vice-President/ Secretary
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Charlotte Community Library

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Principals

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ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Trustees
Charlotte Community Library
Charlotte, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the Charlotte Community Library as of and for the year ended June 30, 2005, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Charlotte Community Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Charlotte Community Library as of June 30, 2005, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 16, 2005

Charlotte Community Library

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2005

As management of Charlotte Community Library, we offer this discussion and analysis of the activities of the Library for the year ended June 30, 2005.

The discussion and analysis of financial performance provides an overview of the Library's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the Library's financial statements which will immediately follow this section.

Financial Highlights

The following represent the most significant financial highlights for the year ending June 30, 2005:

- The assets of the Library exceeded its liabilities at the end of the fiscal year by \$2,057,091 (net assets) at the government-wide level.
- The Library's total net assets increased by \$154,631 as a result of current year activity at the government-wide level.
- At the close of the fiscal year, the Library's governmental fund reported a fund balance of \$517,279.
- State aid, penal fines and interest income were slightly higher than anticipated due to the state and national economies.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Charlotte Community Library as a whole and present a longer-term view of the Library's finances.

The fund financial statements present a short-term view; they tell us how the taxpayer's resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the operations of the Library in more detail than the government-wide financial statements by providing information about the Library's most significant funds.

The Library as a Whole

The following table shows, in a condensed comparative format, the net assets as of June 30, 2005 and 2004.

	2005	2004
Assets		
Current assets	\$ 386,014	\$ 360,128
Noncurrent assets	<u>1,703,371</u>	<u>1,577,458</u>
Total assets	2,089,385	1,937,586
Liabilities		
Current liabilities	18,735	25,199
Noncurrent liabilities	<u>13,559</u>	<u>9,927</u>
Total liabilities	<u>32,294</u>	<u>35,126</u>
Net Assets		
Invested in capital assets, net of related debt	1,553,371	1,577,458
Unrestricted	<u>503,720</u>	<u>325,002</u>
Total net assets	<u>\$ 2,057,091</u>	<u>\$ 1,902,460</u>

Charlotte Community Library

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2005

As previously stated, the total net assets of the Charlotte Community Library at the end of this fiscal year were \$2,057,091. Unrestricted net assets increased by \$178,718 to \$503,720 as of June 30, 2005.

The following table shows the changes in net assets in a comparative format for the years ending June 30, 2005 and June 30, 2004, respectively.

	<u>2005</u>	<u>2004</u>
Revenues		
Program revenue:		
Charges for services	\$ 20,362	\$ 18,069
Operating grants and contributions	183,546	35,719
Capital contributions	-	970,040
General revenue:		
Property taxes	318,280	283,990
State Aid - unrestricted	25,289	25,301
Penal Fines	121,703	108,969
Interest	2,912	3,376
Miscellaneous	<u>704</u>	<u>572</u>
Total revenues	672,796	1,446,036
Program Expenses		
Library services/operations	<u>518,165</u>	<u>491,585</u>
Change in Net Assets	<u>\$ 154,631</u>	<u>\$ 954,451</u>

Governmental Activities

The Library's governmental revenues totaled \$672,796 with the greatest revenue being property taxes levied by the library. Property taxes make up approximately 47.3 percent of total governmental revenue. The Operating Grants and Contributions increased significantly due to receiving higher contributions from private sources. The increased donations were the result of the Library receiving an endowment from a patron.

The Library incurred expenses of \$518,165 during the year. As a special purpose government, all of the governmental expenses incurred are associated with the library service function.

The Library's Fund

The analysis of the Library's major fund begins on page 3, following the government-wide financial statements. The fund financial statements provide detailed information about the General fund, not the Library as a whole. The Charlotte Community Library's Board of Trustees may create funds to help manage money for specific purposes as well as to show accountability for certain activities. The Library's only fund for the fiscal year ended June 30, 2005 was the General Fund.

Information is presented in the governmental funds balance sheet and in the government fund statement of revenues, expenditures, and changes in fund balance for the Library. The General Fund is a major fund for the fiscal year ended June 30, 2005 for financial reporting purposes as defined by GASB Statement #34.

The General Fund pays for the Library's governmental services. The sole service provided during the fiscal year was library services, which incurred expenditures of \$490,446 for the fiscal year.

The basic governmental fund financial statements can be found on pages 3 through 6 of this report.

Charlotte Community Library

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2005

General Fund Budgetary Highlights

The Library adopts an annual budget for the General Fund. A budgetary comparison statement has been provided as required supplementary information to demonstrate compliance with this budget.

The Library expended \$23,236 less than it budgeted for its total annual expenditures.

Capital Assets and Debt Administration

At the end of the fiscal year, the Library had \$1,553,371 invested in land, building and improvements, equipment, furniture, and books (net of accumulated depreciation). Additions included \$6,061 in equipment and furniture, and \$58,812 in materials added to the collection (as detailed in Note C to the financial statements).

No debt was issued during the fiscal year. The Library had no bonded indebtedness at June 30, 2005. The only long-term liability the Library had at June 30, 2005 was for compensated absences (as detailed in Note D to the financial statements) in the amount of \$13,559. This amount increased \$3,632 in the current year.

Contacting the Library's Management

This financial report is intended to provide our citizens, taxpayers, and library users with a general overview of the Library's finances and demonstrate the Library's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Library's Financial Office at 226 S. Bostwick, Charlotte, Michigan 48813.

BASIC FINANCIAL STATEMENTS

Charlotte Community Library
STATEMENT OF NET ASSETS
June 30, 2005

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 167,662
Investments	84,014
Due from other governmental units	<u>134,338</u>
Total current assets	386,014
Noncurrent assets	
Investments	150,000
Capital assets, net	<u>1,553,371</u>
Total noncurrent assets	<u>1,703,371</u>
TOTAL ASSETS	2,089,385
LIABILITIES	
Current	
Accounts payable	11,943
Accrued liabilities	<u>6,792</u>
Total current liabilities	18,735
Noncurrent liabilities	
Noncurrent portion of compensated absences	<u>13,559</u>
TOTAL LIABILITIES	<u>32,294</u>
NET ASSETS	
Invested in capital assets, net of related debt	1,553,371
Unrestricted	<u>503,720</u>
TOTAL NET ASSETS	<u><u>\$ 2,057,091</u></u>

See accompanying notes to financial statements.

Charlotte Community Library

STATEMENT OF ACTIVITIES

Year Ended June 30, 2005

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Change in Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Recreation and cultural	<u>\$ 518,165</u>	<u>\$ 20,362</u>	<u>\$ 183,546</u>	<u>\$ (314,257)</u>
General revenues:				
				318,280
				25,289
				121,703
				2,912
				<u>704</u>
			TOTAL GENERAL REVENUES	<u>468,888</u>
			CHANGE IN NET ASSETS	154,631
			Net assets, beginning of year	<u>1,902,460</u>
			Net assets, end of year	<u>\$ 2,057,091</u>

See accompanying notes to financial statements.

Charlotte Community Library
GOVERNMENTAL FUND BALANCE SHEET
June 30, 2005

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ 167,662
Investments	234,014
Due from other governmental units	<u>134,338</u>
TOTAL ASSETS	<u><u>\$ 536,014</u></u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable	\$ 11,943
Accrued liabilities	<u>6,792</u>
TOTAL LIABILITIES	18,735
FUND BALANCE	
Unreserved	
Designated for:	
Special projects	84,014
Capital improvements	61,000
Subsequent years' expenditures	121,703
Undesignated	<u>250,562</u>
TOTAL FUND BALANCE	<u>517,279</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 536,014</u></u>

See accompanying notes to financial statements.

Charlotte Community Library

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

June 30, 2005

Fund balance - governmental fund \$ 517,279

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 2,483,693	
Accumulated depreciation is	<u>(930,322)</u>	
Capital assets, net		1,553,371

Long-term liabilities are not due and payable in the current period the funds.
and therefore are not reported as liabilities in the funds. Long-term liabilities
at year-end consist of:

Compensated absences	<u>(13,559)</u>
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Net assets of governmental activities \$ 2,057,091

See accompanying notes to financial statements.

Charlotte Community Library

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUND

Year Ended June 30, 2005

	<u>General</u>
REVENUES	
Taxes	\$ 318,280
Charges for services	20,362
Intergovernmental	25,289
Fines and forfeits	121,703
Interest	2,912
Other	<u>184,250</u>
TOTAL REVENUES	672,796
EXPENDITURES	
Recreation and cultural	426,426
Capital outlay	<u>64,020</u>
TOTAL EXPENDITURES	<u>490,446</u>
EXCESS OF REVENUES OVER EXPENDITURES	182,350
Fund balance, beginning of year	<u>334,929</u>
Fund balance, end of year	<u><u>\$ 517,279</u></u>

See accompanying notes to financial statements.

Charlotte Community Library

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2005

Net change in fund balances - governmental funds \$ 182,350

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 64,873	
Depreciation expense	<u>(88,960)</u>	
Excess of depreciation expense over capital outlay		(24,087)

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

(Increase) in compensated absences	<u>(3,632)</u>
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Change in net assets of governmental activities \$ 154,631

See accompanying notes to financial statements.

Charlotte Community Library
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE A: DESCRIPTION OF LIBRARY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Under Public Act 24 of 1989, the City of Charlotte and the Townships of Carmel and Eaton created the Charlotte Community Library on December 1, 1998, which is considered a District Library. Public Act 24 defines the Library's legal status as "an Authority under Section 6 of Article IX of the State Constitution of 1963" thereby classifying the Library as a Michigan Municipal Corporation. The City and Townships collect and distribute property taxes that are levied by the Library. The Library has no stockholders, and all monies received are to be used for certain specified purposes in accordance with the by-laws of the Library.

The governing body of the Library is a board, which is comprised of seven (7) members, three (3) appointed by the City of Charlotte, two (2) appointed by the Township of Carmel, and two (2) appointed by the Township of Eaton. A Library Director is appointed by the board and is considered the executive officer of the Library.

The Charlotte Community Library's goal is to provide materials and services, which will furnish opportunities for educational, informational, recreational, and cultural needs of the community.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement 14, *The Financial Reporting Entity*; and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present all financial activities of the Charlotte Community Library. The Charlotte Community Library has no activities that would be classified as component units.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the Government-wide statements) present information for the Library as a whole.

The statement of activities presents the direct functional expenses of the Library and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid payments and other general revenues and shows how governmental functions are either self-financing or supported by the general revenues of the Library.

FUND FINANCIAL STATEMENTS

The General fund is presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of this fund present increases (i.e., revenues) and decreases (i.e., expenditures) in net current assets.

The major fund of the Library is:

- a. General Fund - The General Fund is the general operating fund of the Library. It is used to account for all financial resources.

3. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE A: DESCRIPTION OF LIBRARY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Measurement Focus - continued

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The Government-wide financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Deferred revenue is recorded when resources are received by the Library before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenditures.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual include property taxes, state aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt which are recorded when due.

Resources are considered available if they are collected during the current fiscal year or soon enough afterward to be used in payment of current year liabilities - defined as expected to be received within sixty days of year-end. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the Library receives resources before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

5. Budgets and Budgetary Accounting

The General Fund budget shown as required supplementary information to the financial statements was prepared on a basis consistent with the basis used to reflect actual results. The Library employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. The Library prepares the proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and resources to finance them.
- b. Prior to incurring significant expenditures, the budget is legally enacted through Library Board action.
- c. The budget is legally adopted at the total expenditure level and maintained at the account level.
- d. Budgeted amounts are reported as originally adopted or amended by the Library Board during the year.

Charlotte Community Library
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE A: DESCRIPTION OF LIBRARY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Cash, Cash Equivalents, and Investments

Cash and cash equivalents consist of money market checking and savings accounts.

Investments include certificates of deposit with an original maturity of greater than 90 days from the date of purchase.

7. Receivables

Receivables consist of penal fines and other amounts due from organizations or other governments.

8. Property Taxes

The participating City and Townships levy and collect property taxes for the Library. As the Library tax is collected it is remitted by the City and Township Treasurers. At March 1 each year, the City and Townships settle their delinquent taxes with the respective County Treasurer and the unpaid real property tax is remitted to the Library by the County Treasurer in Eaton County. Delinquent personal property taxes are retained by the Treasurers for subsequent collection. The Library is permitted by state statute to levy up to \$4 per \$1,000 of assessed valuation on property within the District. The voters approved a levy of .9 mills for a period of ten (10) years commencing December 1, 1998. For the year ended June 30, 2005, the Library levied .8758 mills.

9. Capital Assets

PRIMARY GOVERNMENT

Capital assets include buildings, equipment, and collection and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements. Capital assets are those with an initial individual cost of \$1,000 or more and an estimated useful life of more than one year. Capital assets are not recorded in the governmental fund. Instead, capital acquisition and construction are reflected as expenditures in the governmental fund and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and improvements	40 years
Equipment and furniture	5 - 50 years
Collections	5 - 40 years

10. Compensated Absences

Based on the requirements of GASB Statement No. 16, *Accounting for Compensated Absences*, the Library has recorded all liabilities associated with compensated absences. Accumulated vested sick and vacation pay amounts and non-vested sick and vacation pay amounts that are probable to vest and be paid at termination are considered payable from future resources and are recorded along with the related payroll taxes as a noncurrent liability in the government-wide financial statements.

11. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since the inclusion of comparative data would make the statements unduly complex and difficult to read.

Charlotte Community Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

In accordance with Michigan Compiled Laws, the Charlotte Community Library is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits of the Library are at federally insured banks located in the State of Michigan with all accounts maintained in the name of Charlotte Community Library.

As of June 30, 2005, the carrying amount and bank balances for each type of bank account are as follows:

<u>Account Type</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Money market checking	\$ 7,640	\$ 9,411
Savings	160,022	160,022
Certificates of deposit	<u>234,014</u>	<u>234,014</u>
TOTAL	<u>\$ 401,676</u>	<u>\$ 403,447</u>

As of June 30, 2005, the Library's deposits were insured by the FDIC in the amount of \$109,411 and the amount of \$294,036 was uninsured.

Charlotte Community Library
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS – CONTINUED

Interest rate risk

The Library has not adopted a policy that indicates how the Library will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time.

Concentration of credit risk

The Library has not adopted a policy that indicates how the Library will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Library's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

The Library has not adopted a policy that indicates how the Library will minimize custodial credit risk, which is the risk that in the event of the failure of the counterparty, the Library will not be able to recover the value of its investments of collateral securities that are in possession of an outside party.

The cash and cash equivalents and investments referred to above have been reported in either the cash and cash equivalents or investments caption in the basic financial statements, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of June 30, 2005:

Cash and cash equivalents	\$ 167,662
Investments	<u>234,014</u>
	<u>\$ 401,676</u>

NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005, was as follows:

	Balance <u>July 1, 2004</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>June 30, 2005</u>
Governmental Activities				
Buildings and additions	\$ 970,040	\$ -	\$ -	\$ 970,040
Equipment and furniture	342,433	6,061	-	348,494
Collections	<u>1,106,347</u>	<u>58,812</u>	<u>-</u>	<u>1,165,159</u>
Totals at historical cost	2,418,820	64,873	-0-	2,483,693
Less accumulated depreciation for:				
Buildings and additions	(14,146)	(24,251)	-	(38,397)
Equipment and furniture	(113,676)	(49,553)	-	(163,229)
Collections	<u>(713,540)</u>	<u>(15,156)</u>	<u>-</u>	<u>(728,696)</u>
Total accumulated depreciation	<u>(841,362)</u>	<u>(88,960)</u>	<u>-0-</u>	<u>(930,322)</u>
Capital assets, net	<u>\$ 1,577,458</u>	<u>\$(24,087)</u>	<u>\$ -0-</u>	<u>\$ 1,553,371</u>

Depreciation expense of \$88,960 is included in the recreation and cultural function on the statement of activities.

Charlotte Community Library
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE D: COMPENSATED ABSENCES

The following is a summary of changes in compensated absences (including current portions) of the Library for the year ended June 30, 2005:

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005	Amounts Due Within One Year
Compensated absences	\$ 9,927	\$ 3,632	\$ -	\$ 13,559	\$ -

Significant details regarding outstanding long-term debt (including current portions) are presented below:

Compensated Absences

In accordance with Library personnel policies, individual employees have rights upon termination of employment to receive payment for unused vacation and sick leave under the formulas and conditions specified in the personnel policies. The dollar amount of these rights (vested and probable to vest) including related payroll taxes amounted to \$13,559 for compensated absences at June 30, 2005. This amount has been recorded in the government-wide financial statements.

NOTE E: FUND BALANCE DESIGNATIONS

Designated fund balance is used to earmark a portion of fund balance to indicate that it is not available for expenditure due to being segregated for a specific future use.

The following are the fund balance designations as of June 30, 2005:

General Fund	
Designated for special projects	\$ 84,014
Designated for subsequent years' expenditures	121,703
Designated for capital improvements	<u>61,000</u>
	<u>\$ 266,717</u>

NOTE F: RISK MANAGEMENT

The Library participates in a State pool, the Michigan Municipal Liability and Property Pool, with other municipalities for property, liability, bonding, and casualty losses. The pool is organized under Public Act 138 of 1982, as amended. The Library also participates in a State Pool, the Michigan Municipal Workers Compensation Fund, with other municipalities for worker's compensation losses. The pool is organized under Public Act 317 of 1969, as amended. The Library has no liability for additional assessments based on the claims filed against the pools nor do they have any right to dividends.

NOTE G: RETIREMENT PLAN

Plan Description

The Library participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all eligible (i.e., full-time) employees of the Library. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE G: RETIREMENT PLAN - CONTINUEDFunding Policy

The obligation to contribute to and maintain the system for these employees was established by the Library Board. The plan requires a contribution from the Director and Children's Librarian at 3.40 percent (under the B-3 benefit program) and the Library contributes the remaining amounts necessary to fund the system.

Annual Pension Cost

For the year ended June 30, 2005, the Library's annual pension cost of \$23,355 for the plan was equal to the Library's required and actual contribution. The estimated annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry actual age cost method. Actual required contributions are based on current monthly payroll times an actuarially computed employer contribution rate. Significant actuarial assumptions used include (a) an 8.00 percent investment rate of return (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation (c) additional salary increases ranging from 0% to 8.4% per year depending on age, seniority and merit, and (d) assumption benefits will not increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a four (4) year period. The unfunded actuarial liability is being amortized as a level percentage of payroll over a 32 year period on a closed basis.

Three (3) year trend information

	Year Ended December 31,		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Actuarial value of assets	\$ 271,065	\$ 277,458	\$ 287,083
Actuarial accrued liability (AAL)	429,517	449,729	455,136
Unfunded AAL	158,452	172,271	168,053
Funded ratio	63%	62%	63%
Covered payroll	134,334	149,809	165,887
UAAL as a percentage of covered payroll	118%	115%	101%

	Year Ended June 30,		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
Annual pension cost	\$ 17,402	\$ 21,503	\$ 23,355
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

NOTE H: POST-EMPLOYMENT HEALTH CARE BENEFITS

The Library provides certain health care benefits for the Library Director who retired in June of 2000. The Library pays 22% per month toward the cost of health insurance premiums and the City of Charlotte pays 78%. If the Library's portion exceeds \$200 per month, it is the Library Director's responsibility to pay any amount above and beyond the \$200.

The cost of retirees' health care benefits is recognized as an expenditure as insurance premiums are paid. For the year ended June 30, 2005, those costs totaled \$2,330 and were paid from the General Fund.

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE H: POST-EMPLOYMENT HEALTH CARE BENEFITS - CONTINUED

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the new employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ended June 30, 2009.

REQUIRED SUPPLEMENTARY INFORMATION



Charlotte Community Library

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	\$ 308,881	\$ 308,881	\$ 318,280	\$ 9,399
Library fees	17,500	17,500	20,362	2,862
Intergovernmental	25,303	25,303	25,289	(14)
Penal fines	127,779	127,779	121,703	(6,076)
Interest	3,500	3,500	2,912	(588)
Other				
Donations	-	-	183,546	183,546
Other	700	700	704	4
TOTAL REVENUES	483,663	483,663	672,796	189,133
EXPENDITURES				
Recreation and cultural				
Salaries and wages	226,317	226,317	221,602	4,715
Payroll taxes	17,315	17,315	16,952	363
Fringe benefits	108,933	108,933	103,772	5,161
Utilities	20,200	20,200	18,694	1,506
Supplies	10,500	10,500	9,186	1,314
Printing	1,000	1,000	530	470
Repairs and maintenance	12,250	12,250	13,885	(1,635)
Insurance	8,895	8,895	8,046	849
Contractual services	38,652	38,652	33,097	5,555
Travel	2,000	2,000	219	1,781
Dues and memberships	720	720	310	410
Miscellaneous	300	300	133	167
Total recreation and cultural	447,082	447,082	426,426	20,656
Capital outlay				
Books and other materials	57,100	57,100	59,163	(2,063)
Furniture and equipment	9,500	9,500	4,857	4,643
Total capital outlay	66,600	66,600	64,020	2,580
TOTAL EXPENDITURES	513,682	513,682	490,446	23,236
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(30,019)	(30,019)	182,350	212,369
Fund balance, beginning of year	334,929	334,929	334,929	-0-
Fund balance, end of year	\$ 304,910	\$ 304,910	\$ 517,279	\$ 212,369

Principals

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Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



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MANAGEMENT LETTER

Members of the Board of Trustees
Charlotte Community Library
Charlotte, Michigan

As you know, we have recently completed our audit of the records of the Charlotte Community Library as of and for the year ended June 30, 2005. In connection with the audit, we feel that a certain change in your accounting and administrative procedures would be helpful in improving management's control and the operational efficiency of the accounting and administrative functions. This suggestion is a result of our evaluation of the internal control and our discussions with management.

The Board should amend the Library's investment policy to address the disclosure requirements of GASB Statement No. 40.

During the course of our audit and through discussions with administration, it was noted that the Library has not amended their investment policy to address the reporting requirements of GASB Statement No. 40.

Deposit and investment resources often represent significant assets of the Library's governmental fund. These resources are necessary for the delivery of the Library's services and programs. Effective for the year ended June 30, 2005, GASB Statement No. 40 is designed to inform financial statement users about deposit and investment risks that could affect the Library's ability to provide services and meet its obligations as they become due.

We suggest the Board review their current investment policy and make the necessary amendments to address custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Such policies are required to be disclosed in the notes to the Library's financial statements by GASB Statement No. 40.

This condition was considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the basic financial statements, and this report does not affect our report on the basic financial statements dated August 16, 2005.

This report is intended solely for the information of management and the Board of Trustees of the Charlotte Community Library and is not intended to be, and should not be, used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 16, 2005